

Decision 04-01-028 January 8, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (E 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E)

Application 00-11-056
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028
(Filed October 17, 2000)

**ORDER IMPLEMENTING AN INTERIM ALLOCATION OF THE 2004
REVENUE REQUIREMENT DETERMINATION OF THE CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND TRUING UP THE 2001-2002
REVENUE REQUIREMENT DETERMINATION OF THE CALIFORNIA
DEPARTMENT OF WATER RESOURCES**

Summary

This decision adopts an interim allocation of the 2004 revenue requirement of the California Department of Water Resources (DWR). Consistent with the Administrative Law Judge's (ALJ's) Ruling Granting Motion to Bifurcate of October 17, 2003, the final allocation methodology for 2004 will be litigated in a second phase of this proceeding. This decision also implements a "true-up" of the inter-utility allocation of DWR's 2001-2002 revenue requirement, consistent with the previous decisions of the Commission.

Background

On September 19, 2003, DWR submitted to the Commission its determination of its 2004 revenue requirement. On September 30, 2003, San Diego Gas & Electric Company (SDG&E) filed a Motion to Bifurcate the proceeding, arguing that the 2004 revenue requirement for DWR should initially be allocated using the allocation methodology used for 2003, as established in Decision (D.) 02-12-045, with the final allocation methodology for 2004 to be litigated in a second phase and on a less expedited schedule. SDG&E proposed that the initial allocation should be interim, and would apply until the Commission adopted a final allocation for 2004.

Based on discussion at the pre-hearing conference (PHC) on October 2, 2003, the assigned ALJ granted SDG&E's motion to bifurcate. All active parties¹ generally agreed to SDG&E's proposal, with the clarification that the final allocation for 2004 should be applied retroactively to January 1, 2004.

Earlier in this proceeding, the decision was made to perform the true-up of DWR's 2001-2002 revenue requirement when actual data for 2002 became available. (See, D.02-12-045, p. 35.) The Commission, based upon information from DWR, anticipated that this would be around April 2003. (Id.) However, the data was not actually available until September 2003.

At the PHC, PG&E proposed to further defer litigation of the true-up, in order to combine it with the true-up for 2003. SCE opposed PG&E's proposal, arguing that the true-up for 2001-2002 was already overdue. The assigned ALJ agreed with SCE, rejected PG&E's proposal, and confirmed that the 2001-2002

¹ The active parties are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), SDG&E, The Utility Reform Network (TURN) and the Commission's Office of Ratepayer Advocates.

true-up would be litigated concurrently with the 2004 interim revenue requirement.

2004 Interim Allocation

As a result of the bifurcation of the 2004 revenue requirement allocation process, this phase is relatively uncontroversial. The active parties agree that the methodology to be applied is the methodology adopted in D.02-12-045. Energy Division staff prepared a “strawman” calculation using this methodology, which was circulated to the parties for their input, and was ultimately admitted to the record as Exhibit 04-6A. The parties generally agreed that Energy Division staff correctly applied the adopted methodology to DWR’s 2004 revenue requirement. (See, PG&E Opening Brief, p. 37; SCE Opening Brief, p. 28; SDG&E Opening Brief, p. 14.) We adopt the Energy Division calculation of the interim allocation of DWR’s revenue requirement for 2004.² Consistent with the ALJ’s Ruling Granting Motion to Bifurcate, once the final allocation for 2004 is determined, it will be applied retroactively to January 1, 2004.³

While agreeing that Energy Division correctly applied the Commission’s adopted methodology for 2003, PG&E proposes several specific adjustments to the results, in order to incorporate PG&E’s estimates of the outcome of the 2001-2002 true-up, PG&E’s estimate of the direct access customer responsibility

² Exhibit 04-6A is attached as Appendix A. Please note that the citations on the second page of the table to “DWR Supplemental Determination” should actually read “DWR Determination.”

³ This interim allocation reflects DWR’s current estimates of its costs and revenues for 2003. Should these estimates change prior to the close of the record in the final allocation phase, DWR should promptly notify all parties, especially if costs can be reduced or revenues increased. We note that DWR’s estimates of its costs for 2001-2002 (such as A&G) have not always been perfectly accurate.

surcharge (DA CRS) revenues it will remit to DWR, and PG&E's proposal to no longer remit to DWR a portion of the revenues it receives for sales of excess energy. (PG&E Opening Brief, pp. 37-42.) SCE opposes those adjustments, and argues that the Commission should reject them as premature. (SCE Reply Brief, p. 21.) SDG&E also opposes PG&E's adjustments, albeit with some qualifications. (SDG&E Reply Brief, p. 11.)

In part to keep things consistent in our treatment of the three utilities, we decline to make the specific adjustments proposed by PG&E. However, while we are adopting the allocation results presented by the Energy Division in Exhibit 04-6A, which simply applied the adopted 2003 methodology to DWR's 2004 revenue requirement, we also note that two adjustments must be made to the utility power charges calculated in Appendix A. These adjustments should be made by each utility in its advice filing in compliance with this decision.

First, DWR's estimates of DA CRS revenues that it expects to receive from each utility should be updated. As TURN proposes, the most sensible means of accomplishing this is to leave this issue to the implementation advice letters, but to require each utility to reach a prior agreement with DWR on the appropriate amount of the DA CRS revenue forecast. (TURN Reply Brief, p. 4.)⁴ We will adopt this approach, and direct the Energy Division to participate in the discussions between DWR and the utilities prior to the advice filings.

The second adjustment, as described further below, will require each utility to adjust its 2004 allocated revenue requirement, and its resulting

⁴ Absent such agreement, DWR could protest the advice letter filing and seek resolution of any dispute by the Commission.

remittance rate, to reflect the results of the 2001-2002 true-up that we are adopting in this decision.

Remittance and Utility-Specific Balancing Account Proposals

PG&E proposes to change the remittance methodology, arguing that the proposed modifications would provide greater certainty and would eliminate the need for annual true-ups. (PG&E Opening Brief, pp.42-49.) TURN sees “considerable merit” in PG&E’s proposal, and supports the Commission either adopting the proposal here or in a later phase of this case. (TURN Reply Brief, pp. 3-4.) SDG&E, while acknowledging the purpose of PG&E’s proposal, does not support its application to SDG&E, and does not believe it should be addressed in this phase. (SDG&E Opening Brief, p. 16.) Most significantly, DWR also opposes PG&E’s proposal, at least in this phase of the proceeding. (DWR Reply Memorandum, pp. 2-4.) DWR is amenable to the Commission considering PG&E’s proposal in the next phase of this proceeding, which will be examining a permanent allocation for 2004, and possibly beyond. (Id., p. 4.) To allow the parties and DWR (and the Commission) more opportunity to examine and consider PG&E’s remittance proposal, we will not address its substance here, but consistent with DWR’s suggestion, we will examine it in the next phase of this proceeding.⁵

PG&E argues that if its remittance proposal is not adopted, the Commission should require DWR to create utility-specific balancing accounts for each utility to record the difference between DWR’s revenue requirement allocated to each utility and the remittances from each utility. The balancing

⁵ In the meantime, PG&E should work with DWR and the other parties to ensure that its proposal to modify the remittance methodology is clearly understood.

accounts would be used to reconcile the revenue requirement to actual costs, obviating the need for a separate true-up proceeding. (PG&E Opening Brief, pp. 51-52.) SCE agrees with PG&E, and argues that DWR should establish utility-specific balancing accounts. (SCE Opening Brief, pp. 29-30, Reply Brief, p. 22.)

DWR opposes the proposals that it establish utility-specific balancing accounts. According to DWR, the utilities already have the information and ability to track remittances and costs themselves, making it unnecessary for DWR to set up balancing accounts. In addition, DWR argues that such balancing accounts do not comport with DWR's current record keeping methodology, and implementing such accounts would accordingly require DWR to incur additional administrative expenses. Finally, DWR asserts that the permanent allocation methodology to be litigated in the next phase of this proceeding will eliminate the need for future inter-utility true-ups. (DWR Reply Memorandum, pp. 1-2.)

We hope that DWR is correct on the last point. Because we are deferring consideration of PG&E's modified remittance methodology to the second phase, we will not implement utility-specific balancing accounts here. We do hope to avoid future inter-utility true-ups, so in the next phase we will consider any and all proposals that could assist us in that goal, including utility-specific balancing accounts established by DWR. PG&E, SCE and DWR (and any other parties) should feel free to present their arguments for and against such balancing accounts (and any alternatives to such balancing accounts) in the next phase of this proceeding.

Power Charge Balancing Account

PG&E separately recommends that the Commission establish a Power Charge Balancing Account (PCBA) to "record the difference between the

amounts remitted to DWR pursuant to the Commission-adopted remittance formulas, and the amounts actually collected through customers' DWR power charge rate component." (PG&E Opening Brief, pp. 50-51.) According to PG&E, this balancing account will be necessary once PG&E's bundled customers move to "bottoms up" rates. PG&E states:

PG&E previously proposed the PCBA in testimony for Investigation 02-04-026, the Plan Of Reorganization (PoR) OII, which is currently pending before [the] Commission. [fn. omitted] PG&E requests that the Commission establish the PCBA here, or at a minimum establish the power charge rate component here, in anticipation of the Commission's adoption of the PCBA in the PoR OII, so that the rate will be available when bottoms up rates are implemented. (PG&E Opening Brief, p. 50.)⁶

TURN supports PG&E's proposal, describing it as a reasonable method for preventing a potential problem. (TURN Reply Brief, p. 5.) While the record on this issue is rather minimal, we will grant PG&E's request to establish a PCBA. PG&E should coordinate its implementation of the PCBA with the Commission's Energy Division.

Bond Charge Level

PG&E recommends adoption of its estimate of a 2004 DWR bond charge equal to \$0.00517. This rate is equal to DWR's forecast of "Bond Charge Revenue from Utilities" (Exhibit 04-13, page 5 Table A-2, line 7) divided by PG&E's estimate of total utility customer usage that will be subject to the bond charge in 2004, or \$873 million divided by 168,985,660 MWh (PG&E Opening Brief, pp 55-56). SDG&E endorses PG&E's calculation (SDG&E Opening Brief,

⁶ PG&E presented an abbreviated version of this argument in its prepared testimony, dated October 15, 2003. (Ex. 04-13.)

pp 15-16). However, DWR's modeling in support of Exhibit 04-13 indicates that PG&E's estimated bond charge is too high. If PG&E's estimated bond charge is introduced into DWR's model, that model estimates that utility customers would pay DWR a total of \$911 million, \$38 million more than DWR has requested.⁷ DWR estimates that it will receive the required \$873 million if the Commission sets the bond charge at \$0.00493. We adopt DWR's requested 2004 bond charge.

2001-2002 True-Up

In D.02-02-052 (subsequently modified by D.02-03-003 and D.02-03-062)⁸, the Commission established an allocation of DWR's revenue requirement for 2001-2002. In that decision, we largely adopted SCE's proposal, under which long term contract costs⁹ were allocated pro-rata, based on each utility's net short position, while short term contract costs were allocated on a zonal basis, based on whether the power was to be delivered north or south of Path 15.

Short Term Contract Allocation

PG&E argues that in this proceeding the Commission should allocate short term contract costs pro-rata, rather than on a zonal basis. According to PG&E, it would be unfair for PG&E customers to pay the costs associated with the price differential between north and south of Path 15 when those price differentials were caused by market manipulation. (See, e.g. PG&E Opening Brief, pp. 7-8.) PG&E claims that there is now clearer evidence of market manipulation than

⁷ This difference may result from a slightly higher sales forecast in the DWR model, which we rely upon here.

⁸ For brevity, this series of decisions will be referred to simply as D.02-02-052.

⁹ "Long-term" contracts are more than 90 days in duration. "Short-term" contracts are generally bilateral contracts longer than day-ahead, but with a duration of 90 days or less. (D.02-02-052, p. 24.)

there was at the time the Commission adopted its original allocation of short term contract costs in D.02-02-052. TURN agrees with PG&E, arguing that market manipulation had a greater impact than market fundamentals in driving north-south price disparities. (TURN Opening Brief, pp.3-4.)

SCE opposes PG&E and TURN on this issue. According to SCE, PG&E previously made this same argument, and the Commission rejected it in D.02-02-052. In addition, SCE argues that the existence of market manipulation was known to both PG&E and the Commission at the time the Commission decided this issue in D.02-02-052. (See, e.g. SCE Opening Brief, pp. 13-16.) SDG&E agrees with SCE, largely echoing SCE's arguments. (See, e.g. SDG&E Reply Brief, pp. 6-7.)

We agree with SCE and SDG&E on this issue, and we decline to revisit our previously adopted approach. While PG&E is correct that we now have a clearer understanding of the market manipulation that occurred at the time, this Commission was aware at the time it adopted its current allocation that there were price differentials north and south of Path 15, and also that those differentials were caused by market manipulation. As SCE points out, a utility procuring electricity at the time would have faced the same costs as those faced by DWR. In other words, the prices for electricity were real, even if their cause was somehow false.

Similarly, and consistent with the recommendations of TURN and SCE, any future Federal Energy Regulatory Commission-ordered refunds applicable to the 2001-2002 DWR revenue requirement will be allocated on a zonal basis, the same way that the costs are allocated. (TURN Opening Brief, p. 4, SCE Reply Brief, p.5.)

Bond Charge Allocation

SCE in turn also proposes that the Commission use this proceeding to revisit a prior decision. SCE argues that the Commission should change the methodology established in D.02-10-063, which allocated DWR's Bond Charge revenue requirement on an equal cents per kilowatt-hour basis, and established a bond charge that is uniform across the three major utilities. According to SCE, it is inequitable for its customers to be responsible for paying approximately 45% of the bond charge revenue requirement while only receiving the benefits of approximately 37% of the bond proceeds. (SCE Opening Brief, p. 21.)

SCE acknowledges that it previously supported an equal cents per kilowatt-hour allocation of the bond charge revenue requirement, on the grounds that it would be simplest to implement, and in recognition that DWR's power purchases benefited the customers of all Investor-owned Utilities. (Id.) Nevertheless, SCE believes that, since we now have more information on how DWR's revenue requirement is being recovered, the Commission should reconsider its previous decision. TURN supports SCE's proposal, arguing that the existing allocation creates "obvious and unjustifiable cross-subsidies" between utilities. (TURN Reply Brief, p.1.)

PG&E and SDG&E oppose SCE's proposal, and note that the Commission already expressly considered and rejected SCE's current proposal, which was previously proposed by TURN. (PG&E Opening Brief, p. 31-32, SDG&E Opening Brief, p. 12.) According to PG&E and SDG&E, the Commission found that the bond costs were incurred to benefit the entire state by maintaining the stability of the grid, and were not tied to specific energy or service territories. We agree with PG&E and SDG&E on this issue, and we decline to revisit our previously adopted approach.

TURN observes that the proposals of PG&E and SCE tend to offset each other to some degree, and this fact contributes to TURN's recommendation that the Commission adopt both PG&E's and SCE's recommended changes. (TURN Opening Brief, p. 2.) SDG&E points out, however, that no offset would occur for SDG&E's customers, and the combined adoption of the two proposals would have a significant adverse impact on SDG&E's customers. (SDG&E Reply Brief, p. 9.) SDG&E also reiterates that the Commission previously rejected these proposals individually, and there is no basis to now adopt them in tandem. (Id., p.10.)

Compliance Approach

SDG&E recommends that the true-up of the 2001-2002 revenue requirement should be performed in accordance with the true-up methodology adopted in D.02-02-052, as modified by D.02-03-062. (SDG&E Opening Brief, p. 1.) This approach makes sense, as it avoids reinventing the wheel. We determined an allocation, and allowed for its truing-up. This is the time for that truing-up, not the time to reexamine our previous allocation from scratch. In any event, the other utilities' fallback positions generally converge with SDG&E's position. As PG&E put it,

But if the Commission decides nonetheless to continue to use the approach adopted in D. 02-02-052, PG&E agrees that any of the three "compliance" calculations presented by the utilities provides an appropriate "compliance" result for PG&E. (PG&E Opening Brief, p. 21.)

Consistent with the general statements of SDG&E and PG&E, we adopt SCE's compliance calculation of Net Ratepayer Costs. (Exhibit 04-4, Table II-1.)¹⁰

One area of dispute is how "Net Bond Proceeds" should be allocated. SDG&E argues that they should be allocated on the basis of the utility's net short positions, while SCE argues that they should be allocated in proportion to the "Net Ratepayer Costs" incurred by DWR on behalf of each utility's customers. (See, e.g. SDG&E Opening Brief, pp. 3-5, SCE Opening Brief, pp. 19-20.)¹¹ Both utilities claim that their proposal is the only one consistent with D.02-02-052, as modified by D.02-03-062. There is in fact some ambiguity in this area; however, a review of the record leading to D.02-02-052 shows that SCE is correct in its claim that the allocation percentages proposed by SCE and ultimately adopted by the Commission were calculated by allocating "Net Borrowed Proceeds" and "Financing Costs" based on the "Net Ratepayer Costs" allocated to each utility. Consistent with our prior approach, we will use the calculation methodology for allocating "Net Bond Proceeds" recommended by SCE, rather than the methodology advocated by SDG&E.

Western Area Power Administration (WAPA) Interest

SCE argues that PG&E is underpaying DWR as a result of how interest is calculated on PG&E's late payment of WAPA-related remittances to DWR. (SCE Opening Brief, pp. 26-28.) According to SCE, PG&E is paying financing costs based upon the interest rate earned by PG&E during the lag in its remittances to DWR, but SCE argues that this fails to adequately compensate DWR's customers

¹⁰ SCE also states that the utilities essentially agree on the calculation of Net Ratepayer Costs (SCE Opening Brief, pp. 12-13).

¹¹ PG&E apparently equivocates on this issue.

for the actual financing costs incurred as a result of PG&E's tardiness. (Id.) SCE believes that instead of PG&E paying how much it made from its delay, PG&E should pay what the delay cost DWR.

PG&E opposes SCE's argument, and responds that SCE's argument is flawed, as DWR did not use the WAPA payment to retire DWR bonds, but rather used the WAPA payment to support a one-time bill credit. (PG&E Reply Brief, pp. 19-21.) According to PG&E, if DWR had received the payment earlier, DWR would have earned the short-term interest rate on the money for the period of time between when it was received by DWR until the time the bill credit was made. (Id., p.20.) In other words, the amount calculated by PG&E actually does correspond to the cost to DWR of PG&E's late payment.

DWR, however, states that it "[D]id in fact finance PG&E under-remittances with revenue bonds until remittances were paid." (DWR Reply Memorandum, p. 5.) From this statement by DWR, it appears that DWR is acknowledging that SCE's argument is correct. At the same time, DWR has agreed to the interest calculated with PG&E's methodology.

SCE appears to have raised a valid point; customers of the other utilities should not be financing PG&E's late payment to DWR. Nevertheless, the issue of interest payments on the late WAPA remittances has already been addressed in this proceeding. In a prior phase of this proceeding, we stated:

We shall order interest to be paid on the under-remittances by PG&E's shareholders. However, we shall leave it up to DWR and PG&E to determine the appropriate amount of interest that should be paid by PG&E's shareholders for PG&E's untimely remittances associated with the WAPA load, subject to Commission approval. If they cannot resolve the interest issue among themselves, they can submit the interest issue to us for a determination. PG&E shall file and serve a notice with the Commission regarding its efforts to resolve the WAPA interest issue within 45 days from today. A draft

decision addressing the WAPA interest issue will then be issued for comment, and Commission action. (D.03-09-017, p. 31.)

SCE should raise this issue in its comments on the draft decision referred to above.

El Paso Settlement

PG&E argues that the Commission should order DWR to reflect in its revenue requirement as soon as possible any monies that DWR will be receiving as a result of the settlement of what is known as the “El Paso” litigation. Specifically, PG&E argues that such refunds should be reflected in DWR’s 2004 revenue requirement rather than its 2005 revenue requirement. (PG&E Opening Brief, p. 38.)

DWR opposes PG&E’s proposal, and argues that the Commission has already decided the timing of DWR’s implementation of any such reduction in its revenue requirement in D.03-10-087. (DWR Reply Memorandum, p. 4.) DWR is correct that the Commission has already decided how El Paso refunds will be addressed:

CDWR will reduce the amounts which contribute to its revenue requirement by the amount of the El Paso consideration, as CDWR has committed to do in the Settlement. The Commission will then implement the pass through to retail customers of CDWR’s reduction in revenue requirement as part of our periodic proceedings to implement revisions to the CDWR revenue requirement. (D.03-10-087, p. 10.)

While we will not specifically order DWR to incorporate El Paso settlement proceeds in its 2004 revenue requirement, we do agree with PG&E that any such refunds should be reflected in DWR’s revenue requirement as quickly as possible, and we urge DWR to promptly reduce its revenue requirement to reflect its share of the El Paso settlement.

Direct Transfer of Funds

SDG&E proposes that any credit SDG&E's customers will be receiving as a result of the true-up should be directly transferred to SDG&E to allow the immediate payoff of what has become known as the Assembly Bill (AB) 265 undercollection. (SDG&E Opening Brief, pp.6-7.)¹² PG&E's position differs, as PG&E recommends that any true-up should be incorporated into each utility's 2004 remittance rate. (PG&E Opening Brief, pp. 36-37.) SCE agrees with PG&E that the results of the 2001-2002 true-up should be reflected in each utility's allocation of DWR's 2004 revenue requirement, and that there should be no direct transfer of funds between utilities as a result of the true-up. (SCE Opening Brief, pp. 30-31.)

The position taken by PG&E and SCE on this issue is more consistent with the general practice we have adopted for adjustments to DWR's revenue requirement, and is also more consistent with the terms of the rate agreement. (See, D.02-02-051.) In addition, we have recently granted a number of requests by SDG&E to apply various refunds to the AB 265 undercollection, including SDG&E's proposal to apply 70% of its proceeds from the El Paso settlement to the AB 265 undercollection. (D.03-10-087, pp. 11-14.) It is not clear from the record before us how much more money SDG&E actually needs to apply to the AB 265 undercollection, especially given these recent developments. Accordingly, we deny SDG&E's request, and will instead reflect the results of the true-up in each utility's 2004 revenue requirement, as recommended by PG&E and SCE.

¹² This is a reference to the AB 265 subaccount of SDG&E's Transition Cost Balancing Account.

Other Adjustments

In its calculation of Net Ratepayer Costs, SCE identifies four issues that the previously adopted methodology did not address, and goes on to recommend how those issues should be addressed here. First, SCE notes that the true-up sales data provided by DWR did not match the calculated net-short positions of the three utilities; SCE recommends that energy in excess of the net short positions should be allocated in proportion to each utility's customers' net short position for the applicable month. (SCE Opening Brief, p. 9.) Second, SCE recommends that monthly wholesale sales revenues should be allocated proportionally to each utility's monthly net short position. This assumes that the majority of such sales were made in advance of, rather than in, the real-time market, as the available data does not allow for a precise determination where such sales occurred. (Id., pp. 9-10.) Third, since each utility has not provided its actual net-short positions, each utility's net short should be calculated as a sum of its monthly final hour-ahead schedules and imbalance energy. (Id., pp. 10-11.)¹³ Fourth, any direct remittances from a utility to DWR should be reflected in the true-up calculation, such as the wholesale-related costs for which SCE (and PG&E) directly reimbursed DWR. (Id., p. 11.)

These clarifying recommendations make sense, are not controversial, and we accordingly adopt them. With these details and the larger litigated issues resolved, the resulting 2001-2002 true-up resembles what parties have referred to as the "compliance" calculation. The true-up calculation for the 2001-2002 DWR revenue requirement is attached as Appendix B.

¹³ PG&E agrees, and states that the utilities have reached consensus on this issue. (PG&E Opening Brief, p. 19.)

Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Section 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on December 29, 2003 by SCE, SDG&E, PG&E and ORA. Reply Comments were filed on January 5, 2004 by SCE, SDG&E and PG&E.

SCE merely reiterates its argument that the allocation of bond proceeds and bond costs should be proportional, and that argument is also echoed by ORA. SDG&E vigorously disputes this argument, and in its Reply Comments demonstrates how an equal cents per kilowatt-hour allocation of the bond charge revenue requirement (adopted by this Commission in D.02-12-082, Appendix A) is equitable and reasonable. PG&E also opposes SCE's and ORA's proposal, and its Reply Comments describe the sound underlying policy for the Commission's equal cents per kilowatt-hour allocation, and reinforce the point that SCE is merely trying to relitigate an issue that has already been thoroughly litigated, analyzed, and decided. We continue to reject SCE's position on this issue.

In turn, SDG&E reiterates and expands on its previous argument that net bond proceeds and financing costs should be allocated on the basis of the utilities' net short positions, rather than on net ratepayer costs. SCE disagrees, arguing that an allocation based on net ratepayer costs is more consistent with the Commission's previous decisions in this proceeding, specifically D.02-02-052, as modified by D.02-03-062. While those previous decisions may be somewhat confusing on this issue, our review of the record indicates that SCE is correct. We continue to reject SDG&E's position on this issue.

SDG&E suggests clarifying the language of Finding of Fact 11, Conclusion of Law 11, and Ordering Paragraphs 4 and 5. We have incorporated these suggested changes. SDG&E and PG&E point out an inconsistency between

Ordering Paragraph 15 and the table in Appendix A. Appendix A has been revised to be consistent with Ordering Paragraph 15.

Assignment of Proceeding

Loretta M. Lynch and Geoffrey F. Brown are the Assigned Commissioners and Peter V. Allen is the assigned Administrative Law Judge for this phase of this proceeding.

Findings of Fact

1. Energy Division prepared and circulated a “strawman” calculation applying an allocation methodology to DWR’s 2004 revenue requirement.
2. DWR should update its estimates of DA CRS revenues that it expects to receive from each utility, preferably with the agreement of each utility.
3. Proposals to change the remittance methodology and to require DWR to establish utility-specific balancing accounts are slightly premature.
4. A power charge balancing account could prevent potential problems resulting from an upcoming change in PG&E’s billing method.
5. The bond charge levels calculated by DWR and PG&E differ.
6. The Commission previously allocated the costs of short-term DWR contracts on a zonal basis.
7. The Commission previously allocated DWR’s bond charge revenue requirement on an equal cents per kilowatt-hour basis.
8. The Commission previously allocated net bond proceeds and financing costs based on the net ratepayer costs allocated to each utility.
9. PG&E and DWR have been negotiating the amount of interest to be paid by PG&E’s shareholders for PG&E’s late payment to DWR of remittances related to WAPA load.

10. The Commission decided in D.03-10-087 how refunds from the El Paso settlement will be addressed.

11. Debiting or crediting the results of the 2001-2002 true-up to each utility's allocation of the 2004 revenue requirement is more consistent with prior Commission decisions than a direct transfer of funds between utilities.

12. SCE has made reasonable proposals to address four issues that the Commission's previously adopted methodology did not address.

Conclusions of Law

1. Energy Division's "strawman" calculation is consistent with the methodology adopted in D.02-12-045.

2. Updated estimates of DA CRS revenues should be included in implementation advice letters.

3. The Commission will consider proposals for changes to the remittance methodology and for DWR to establish utility-specific balancing accounts.

4. There is adequate evidence to support establishment of a power charge balancing account.

5. The record supports the adoption of DWR's calculation of the bond charge level.

6. Zonal allocation of short-term contract costs is more consistent with prior Commission decisions than a pro-rata allocation of those costs.

7. An equal cents per kilowatt-hour allocation of DWR's bond charge revenue requirement is more consistent with prior Commission decisions than the alternative allocation approaches proposed by SCE.

8. SCE's position that net bond proceeds and financing costs are to be allocated based on the net ratepayer costs allocated to each utility is consistent with D.02-02-052, as modified by D.02-03-062.

9. The negotiations between PG&E and DWR relating to interest on WAPA remittances are not inconsistent with D.03-09-017.

10. D.03-10-087 does not require DWR to reflect El Paso settlement proceeds in its 2004 revenue requirement.

11. The results of the 2001-2002 true-up (as shown in Appendix B) should be debited or credited to each utility's allocation of DWR's 2004 revenue requirement (as shown in Appendix A).

12. SCE's recommendations for the four issues not addressed by the Commission's previously adopted methodology should be adopted.

IT IS ORDERED that:

1. The allocation of Department of Water Resources (DWR) 2004 revenue requirement adopted today is interim, consistent with the ruling of Administrative Law Judge (ALJ) Allen.

2. DWR's 2004 revenue requirement is allocated on an interim basis as calculated by the Energy Division, as shown in Appendix A.

3. The utilities shall provide updated estimates of direct access customer responsibility surcharge revenues in their implementation advice letters.

4. The 2004 power charges shown in Appendix A, after adjustments by the utilities as described above for DA CRS and the 2001-2002 true-up, shall go into effect immediately, and will remain in effect until further order of the Commission.

5. Within 14 days of the issuance of today's decision, Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company shall file advice letters with revised tariffs that reflect the charges with the two adjustments adopted in this order. These new

tariffs shall be effective as of the date of today's decision, subject to review by the Commission's Energy Division.

6. Proposals for changes to the existing remittance methodology, and for DWR to establish utility-specific balancing accounts, will be considered in the next phase of this proceeding.

7. PG&E may establish a power charge balancing account.

8. The bond charge is set at the level calculated by DWR, as described above.

9. The calculation of the true-up of DWR's 2001-2002 revenue requirement is shown in Appendix B.

10. Short-term contract costs will continue to be allocated on a zonal basis, as described above.

11. DWR's bond charge revenue requirement will continue to be allocated on an equal cents per kilowatt-hour basis, as described above.

12. Net bond proceeds and financing costs will continue to be allocated based on the net ratepayer costs allocated to each utility, as described above.

13. SCE may submit comments as appropriate on the PG&E and DWR proposal relating to interest on Western Area Power Administration remittances.

14. DWR is not required to include El Paso settlement proceeds in its 2004 revenue requirement, but any such refunds should be reflected in DWR's revenue requirement as quickly as possible.

15. Each utility's allocation of DWR's 2004 revenue requirement reflects the results of the true-up of DWR's 2001-2002 revenue requirement.

16. The four issues not addressed by the Commission's previously adopted methodology for 2001-2002 are resolved as recommended by SCE, as described above.

17. The Commission or Assigned Commissioner or ALJ shall issue further orders or rulings as needed regarding the process and schedule of future phases of this proceeding.

This order is effective today.

Dated January 8, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I dissent.

/s/ CARL W. WOOD
Commissioner

I reserve the right to file a dissent.

/s/ LORETTA M. LYNCH
Commissioner

APPENDIX A

Appendix A

2004 DWR Revenue Requirement

INTERIM Methodology for Allocation of Revenue Requirement

Note: The INTERIM allocation of the 2004 DWR revenue requirement is based on the allocation methodology authorized by the CPUC in D.02-12-045.

1. Calculate each IOU's portion of DWR supplied energy, which is adjusted for Pre-DA migration.

a) Calculate the proportion of DWR and URG supplied energy in each IOU's resource portfolio

Line	GWh	PG&E	SCE	SDG&E	Total	Source
1	Supply from URG					Removed after IOU review--these values are not used in the allocation calculations
2	Supply from DWR	22,588,060	28,796,220	7,487,590	58,871,870	DWR Financial Model (IOU Tabs)
3	Total Supplied Energy					Line 1 + Line 2 (Removed after IOU review--these values are not used in the allocation calculations)
4	URG % of IOU Portfolio					Line 1 / Line 3 (Removed after IOU review--these values are not used in the allocation calculations)
5	DWR % of IOU Portfolio					Line 2 / Line 3 (Removed after IOU review--these values are not used in the allocation calculations)

b) Adjust the amount of DWR supplied energy for each IOU by adding Pre-DA migration factor to DWR supplied energy. In addition, subtract DWR's share of surplus energy from DWR supplied energy.

Line	GWh	PG&E	SCE	SDG&E	Total	Source
6	Direct Access	7,988,228	10,651,785	2,093,583	20,733,596	DWR Financial Model (IOU_DA Tabs)
7	Departing Load	0	0	0	0	
8	DWR Share of Surplus Energy**	(424,637)	(4,587,775)	(163,241)	(5,175,653)	DWR Financial Model (IOU Tabs)

* Off-system sales volumes are directly assigned to IOUs based on ProSym forecasts.

9	DWR Supplied Energy Adjustment	7,563,591	6,064,010	1,930,342	15,557,944	Line 6 + Line 7 + Line 8
10	DWR Share of Portfolio	30,151,651	34,860,230	9,417,932	74,429,814	Line 2 + Line 9
11	% DWR Supplied Energy	40.51%	46.84%	12.65%	100%	Line 10 / Total Line 10
	October 24 ED Strawman	39.69%	46.16%	14.14%	100%	

2) Calculate the adjusted DWR Revenue Requirement and allocate to each IOU

a) Start with DWR's 2004 Revenue Requirement

Line	2004 DWR Revenue Requirement		Source
12	Power Costs	\$4,698,293,867	DWR Supplemental Determination, Table A-1
13	Administrative & General Expenses	\$58,835,000	DWR Supplemental Determination, Table A-1
14	Extraordinary Costs	\$71,164,648	DWR Supplemental Determination, Table A-1
15	Ancillary Services	\$0	DWR Supplemental Determination, Table A-1
	Less:		
16	Revenue from Surplus Sales**	\$0	
17	Net Operating Revenues	(\$145,043,314)	DWR Supplemental Determination, Table A-1
18	Interest Earnings on Fund Balance	(\$31,267,482)	DWR Supplemental Determination, Table A-1
19	DA CRS Revenue **	\$0	
20	DWR Revenue Requirement	\$4,651,982,719	(Sum of Lines 12 - 15) - (Sum of Lines 16 - 19)

** Revenue directly assigned to the IOUs. See step 2.d.

Line	GWh	PG&E	SCE	SDG&E	Total	Source
21	% DWR Supplied Energy	40.51%	46.84%	12.65%	100%	Line 11

Line		PG&E	SCE	SDG&E	Total	Source
22	Adjusted DWR Revenue Requirement				\$4,651,982,719	Line 20
23	% DWR Supplied Energy	40.51%	46.84%	12.65%	100%	Line 21
24	IOU Share of Adjusted DWR Revenue Requirement	\$1,884,526,526	\$2,178,820,312	\$588,635,882	\$4,651,982,719	Line 22 * Line 23

Line		PG&E	SCE	SDG&E	Total	Source
25	IOU Share of Adjusted DWR Revenue Requirement	\$1,884,526,526	\$2,178,820,312	\$588,635,882	\$4,651,982,719	Line 24
26	DWR's share of Surplus Sales Revenue**	\$10,030,641	\$119,287,118	\$6,002,722	\$135,320,482	DWR Financial Model (IOU Tabs)
27	DWR's share of DA CRS Revenue *****	\$1,025,360	\$0	\$32,544,616	\$33,569,977	DWR Financial Model (IOU Tabs)
28	Final allocation of DWR Revenue Requirement	\$1,873,470,524	\$2,059,533,193	\$550,088,543	\$4,483,092,261	Line 25 – Line 26 - Line 27

** Off-system sales revenues are directly assigned to each IOU based on ProSym forecasts. Consequently, it is no longer necessary to calculate off-system sales as Appendix A.

*** DA CRS revenues will be directly estimated by each IOU as part of their advice filings implementing the Commission decision.

Line		PG&E	SCE	SDG&E	Total	Source
29	IOU Share of Adjusted DWR Revenue Requirement	\$1,873,470,524	\$2,059,533,193	\$550,088,543	\$4,483,092,261	Line 28
30						No longer necessary
31	Final allocation of DWR Revenue Requirement	\$1,873,470,524	\$2,059,533,193	\$550,088,543	\$4,483,092,261	Line 29 + Line 30

~~*The DWR financial model needs to be solved with rates found in lines 43 – 45 to determine change to Operating Account (OA) funding levels~~

3) Remittance Rate Calculation

a.) Determine the amount of dollars to be remitted for variable costs, fixed costs, ancillary services and operating fund balance, and the adjustments due to the results of 2001-2002 True-up.

		\$1,873,470,524	\$2,059,533,193	\$550,088,543		
Line		PG&E	SCE	SDG&E	Total	Source
32	Allocation Factor	40.51%	46.84%	12.65%	100%	Line 21
33	Adjusted Rev Req.	\$1,884,526,526	\$2,178,820,312	\$588,635,882	\$4,651,982,719	(Sum of Lines 12 - 15) * Line 32
34	Less:					
35	Variable Costs	\$51,256,620	\$145,829,050	\$116,506,090	\$313,591,760	DWR Workpapers Provided to Energy Division
36	Ancillary Services	\$0	\$0	\$0	\$0	Line 15 * Line 32
37	Interest Earnings	\$12,666,513	\$14,644,557	\$3,956,412	\$31,267,482	Line 18 * Line 32
38	Off-System Sales	\$10,030,641	\$119,287,118	\$6,002,722	\$135,320,482	Line 26
39	DA CRS	\$1,025,360	\$0	\$32,544,616	\$33,569,977	Line 27
40	Fixed Costs	\$1,822,213,904	\$1,913,704,143	\$433,582,453	\$4,169,500,501	Line 33 - (sum of lines 35 - 39)
41	Net Operating Revenues	(\$58,757,306)	(\$67,933,038)	(\$18,352,970)	(\$145,043,314)	Line 30
41a	Results of 2001-2002 True-up	(\$100,590,687)	\$41,308,258	\$59,282,428	(\$1)	Appendix B of this Decision

b.) Calculate the specific DWR remittance rates

Line		PG&E	SCE	SDG&E	Total	Source
42	2004 DWR Delivered Energy (kWh)	20,168,714,762	22,029,685,133	6,899,536,892	49,097,936,788	DWR Financial Model (IOU Tabs)
43	Variable Costs (\$/kWh)	\$0.00254	\$0.00662	\$0.01689	\$0.00639	Line 35 / Line 42
44	Fixed Costs (\$/kWh)	\$0.09035	\$0.08687	\$0.06284	\$0.08492	Line 40 / Line 42
45	Ancillary Services (\$/kWh)	\$0.00000	\$0.00000	\$0.00000	\$0.00000	Line 36 / Line 42
46	Operating Account (\$/kWh) *	(\$0.00005)	(\$0.00005)	(\$0.00005)	(\$0.00005)	Model Solution
47	Results of 2001-2002 True-up (\$/kWh)	(\$0.00499)	\$0.00188	\$0.00859	\$0.00000	Line 41 a / Line 42
48	Total IOU Power Charge (\$/kWh)	\$0.08785	\$0.09531	\$0.08827	\$0.09126	Sum of Lines 43 - 47

NptTbl Values

* To determine the final power charge needed to exactly achieve DWR's required Operating Account (OA) funding levels, the model needs to be solved for the power charge component found on line 46. This power charge component is included in the IOU power charge calculation.

(END OF APPENDIX A)

APPENDIX B

APPENDIX B
Adopted True-Up Calculation for 2001-2002 DWR Power Charges

		PG&E	SCE	SDG&E	Total
1	Net-Short Energy (GWh)	54,831	37,666	13,864	106,361
2	Net-Short Shares	51.55%	35.41%	13.03%	100.00%
3	Long Term Contract Costs	\$ 2,879,064,226	\$ 1,984,287,786	\$ 821,288,458	\$ 5,684,640,470
4	Short Term Power Costs	\$ 4,950,337,431	\$ 3,263,304,888	\$ 853,641,837	\$ 9,067,284,155
5	Ancillary Services	\$ 323,151,219	\$ 609,303,071	\$ 44,671,059	\$ 977,125,349
6	Unattributable Energy Costs	\$ 93,779,262	\$ 65,018,900	\$ 14,914,273	\$ 173,712,436
7	Assigned Muni/Wholesale Costs	\$ 37,267,451	\$ 46,577,965	\$ -	\$ 83,845,416
8	A&G	\$ 72,783,946	\$ 49,999,208	\$ 18,403,018	\$ 141,186,173
9	Total Cost to Ratepayers	\$ 8,356,383,535	\$ 6,018,491,817	\$ 1,752,918,646	\$ 16,127,793,998
10	Other Power Sales and ISO Revenues	\$ (151,043,790)	\$ (111,767,559)	\$ (35,875,934)	\$ (298,687,282)
11	IOU Expense to DWR Cash Expense	\$ (123,485,823)	\$ (88,892,932)	\$ (25,840,543)	\$ (238,219,297)
12	Net Ratepayer Costs	\$ 8,081,853,923	\$ 5,817,831,327	\$ 1,691,202,169	\$ 15,590,887,418
13	Net Ratepayer Costs Shares	51.84%	37.32%	10.85%	100.00%
14	Interest Earnings	\$ (56,832,518)	\$ (40,911,653)	\$ (11,892,726)	\$ (109,636,897)
15	Bond Proceeds	\$ (5,286,932,995)	\$ (3,805,869,878)	\$ (1,106,339,292)	\$ (10,199,142,165)
16	Financing Costs	\$ 437,508,176	\$ 314,946,149	\$ 91,552,604	\$ 844,006,929
17	End Fund Balance	\$ 1,090,001,321	\$ 784,652,122	\$ 228,092,789	\$ 2,102,746,232
18	Total Ratepayer Costs	\$ 4,265,597,906	\$ 3,070,648,068	\$ 892,615,543	\$ 8,228,861,518
19	Ratepayer Revenue Requirement	\$ 4,265,597,906	\$ 3,070,648,068	\$ 892,615,543	\$ 8,228,861,517
20	Fund Actually Remitted to DWR	\$ 4,118,951,562	\$ 3,216,577,338	\$ 893,332,618	\$ 8,228,861,518
21	True-Up (w/o WAPA Adjustment)	\$ 146,646,344	\$ (145,929,270)	\$ (717,075)	\$ (1)
Treatment of WAPA Payment					
22	Funds Actually Remitted to DWR	\$ 4,118,951,562	\$ 3,216,577,338	\$ 893,332,618	\$ 8,228,861,518
23	WAPA payment	\$ 444,111,784			\$ 444,111,784
24	Subtotal	4,563,063,346	3,216,577,338	893,332,618	8,672,973,302
25	Adjusted True-Up	\$ (297,465,440)	\$ (145,929,270)	\$ (717,075)	\$ (444,111,785)
Amount included in September 2003					
26	Bill Credits provided to customers	\$ 196,874,754	\$ 187,237,528	\$ 59,999,502	\$ 444,111,784
27	(Allocated per D.03-09-018)	44.33%	42.16%	13.51%	100.00%
28	FINAL TRUE-UP	\$ (100,590,687)	\$ 41,308,258	\$ 59,282,428	\$ (1)

(END OF APPENDIX B)